

**CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES**

**Financial Statements
(With Independent Auditor's Report Thereon)**

**Independent Auditor's Report on Compliance and on
Internal Control over Financial Reporting**

Schedule of Findings

June 30, 2012 and 2011



Shull
and Co. P.C.
certified public accountants

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

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CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Officials

June 30, 2012

Electric and Water Utility Board of Trustees
Authority: Indianola City Ordinance No. 642

		Term Expires <u>December 31</u>	Amount <u>Of Bond</u>
Clark Raney		2012	50,000
Chris Boone		2013	50,000
Eric Vander Linden	July 2011 Chairperson	2014	50,000
Bob Lester	June 2012 Chairperson	2015	50,000
Pat Reding		2016	50,000

Indianola Municipal Utilities Management

Todd Kielkopf	General Manager	50,000
Bob Miller	Electric Superintendent	50,000
Lou Elbert	Water Superintendent	50,000
Mike Metcalf	Director of Technical Services	50,000
Chris Longer	Program Coordinator	50,000

City Officials and Management

Jean Furler	Director of Finance	50,000
RoxAnne Hunerdosse	Director of Human Resources	50,000
Diana Bowlin	City Clerk	50,000
Douglas Shull	City Treasurer	50,000
John Hoyman	City Solicitor	50,000

All other city employees are bonded under the Allied Insurance, "Faithful Performance Blanket Position Bond," in the amount of \$50,000.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Board of Trustees Report

March 1, 2013

To the Honorable Mayor, Members of the Council, and Citizens of the City of Indianola,

This report consists of the board and management's representations concerning the finances of Indianola Municipal Utilities. Consequently, the board and management assume full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, the board and management have established a comprehensive internal control framework that is designed both to protect the utility's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of these financial statements. Because the cost of internal controls should not outweigh their benefits, the utility's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. The board and management assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Indianola Municipal Utilities' financial statements have been audited by Shull & Co., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements for the fiscal year ended June 30, 2012 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that Indianola Municipal Utilities' financial statements for the fiscal year ended June 30, 2012 are fairly presented. The independent auditor's report is presented as the first component of the financial section of this report.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statement in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it.

Profile of the Utility Board of Trustees

The City of Indianola, incorporated in 1864 and the county seat of Warren County, is located in the central part of the state approximately 17 miles south of the state capital, Des Moines. Indianola is considered part of the Des Moines MSA, one of the top growth areas in the state. The City of Indianola encompasses an area of approximately nine square miles and a population of 14,782. The city provides electric, water, and telecommunications services as a discretely reported component unit under the management and control of a board of trustees. The board operates these three utilities as Indianola Municipal Utilities (IMU). This system of management and control was established by a vote of the electorate and implemented by city ordinance in 1973 as provided in Iowa Code.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Board of Trustees Report - Continued

Electric and water utility territories are fixed in that any new territory expansions must be negotiated and purchased from incumbent service providers. The telecommunications utility has no fixed territory and leases fiber optic lines to customers and has a licensing arrangement with a private telecom service provider.

Utility board. Utility boards are vested with the authorities of the city in relation to these utilities, with the exceptions that the board may not certify taxes to be levied, pass ordinances or amendments, or issue general obligation or special assessment bonds. Real property is held in the name of the city, but the utility board has all the powers and authorities of the city with respect to the acquisition by purchase, condemnation, or otherwise, lease, sale, or other disposition of such property, and the management, control, and operation of the same, subject to provisions of any outstanding obligations which are payable from the revenues of the city utility. Separate funds are maintained for each utility. Utility fund balances deemed by the board of trustees to be in excess of the needs of a utility may be transferred to any other fund, upon approval by the city council. The five trustees are appointed by the mayor and approved by the city council, each serving staggered six-year terms.

Management. The board of trustees appoints a general manager to oversee the day-to-day management of the electric, water, and telecommunications utilities. The general manager appoints the employees of each of these utilities, carries out the policies of the board of trustees, and performs other duties as determined by resolution of the board.

Other officials. A director of finance serves as the chief accounting officer for all city services, including those provided by IMU, and submits budget and year-end financial reports required of the utility. There is also an appointed clerk, which serves as the secretary of the board of trustees and as such has custodial duties prescribed in Iowa Code, local ordinances, board resolutions, and by management discretion. An appointed treasurer serves as custodian for all funds. An attorney is also appointed to represent the city, its boards, and its commissions and performs certain functions prescribed in local ordinances and in the Iowa Code.

Budgeting process. The annual budget serves as the foundation for the utilities' financial planning and control. The budget process, in general, is as follows:

- The general manager submits a 5-year capital improvement project budget to the board of trustees for review and adoption.
- Departments submit operating budget requests to the general manager.
- The general manager compiles the annual budgets for review.
- The board of trustees adopts budgets for the electric, water, and telecommunications utilities. These are compiled with the City of Indianola's governmental services' budgets and that of the sewer utility for presentation to the public in publication form.
- The city council sets and conducts a public hearing on the budget.
- Any proposed changes to the IMU budget are referred back to the board of trustees.
- The city council adopts the overall budget and the budget is filed with the county auditor and the State of Iowa no later than March 15 of each year.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Board of Trustees Report - Continued

The State of Iowa limits expenditures to the total amount budgeted by function. Expenditures for individual departments or services may exceed those budgeted as long as total expenditures by function are not exceeded. Budget amendments are permitted under provisions similar to the adoption of the original budget. Budget-to-actual comparisons are provided in this report on a cash accounting basis, which is consistent with the city's financial basis of accounting.

Cash management policies and practices. The board of trustees annually reviews and adopts an investment policy outlining the roles and responsibilities in making investments using available cash balances. The clerk and treasurer are jointly responsible for the investment of funds under that policy, with oversight by the board of trustees.

Cash temporarily idle during the year was invested in bank deposits or money market funds, repurchase agreements, and the Iowa Public Agency Investment Trust. These temporary cash deposits were maintained in stable value investments with a June 30, 2012 rate of return of .25%.

The utility invests reserve funds (those not intended to be expended within 365 days) in a portfolio with the assistance of an investment advisement firm. The investment portfolio includes mortgage-backed securities, obligations of the U.S. Treasury or its agencies, and cash held in a public entity money market fund. At fiscal year end, the effective duration of the portfolio was 3.24 years with a current yield of 2.71%. Reported returns may include changes in fair value during the year but do not necessarily represent continuing returns; nor is it always possible to realize changes in fair value, especially in the case of temporary changes for securities the city intends to hold until maturity.

Additional information on the utility's cash management can be found in notes to the financial statements.

Risk management. Indianola Municipal Utilities participates in the Iowa Communities Assurance Pool (ICAP), a local government risk-sharing pool with over 500 members throughout the state of Iowa. The utility makes annual contributions to ICAP recorded as disbursements from its operating funds for automobile, property, casualty, and liability coverage. The utility maintains reserve funds to meet deductibles as they occur. The utility also participates as a member of the Iowa Municipal Workers' Compensation Association (IMWCA) and pays premiums to the association on an annual basis from its operating funds. The utility purchases boiler and machinery insurance from a private carrier. In addition, the utility has an ongoing safety program to monitor its facilities and employees to maintain a safe environment for employees and the public. Additional information on Indianola Municipal Utilities' risk management activity can be found in notes to the financial statements.

Pension and other post-employment benefits. Indianola Municipal Utilities provides pension benefits for its employees. These benefits are provided through a statewide plan managed by the Iowa Public Employees Retirement System. Indianola Municipal Utilities has no obligation in connection with employee benefits offered through this plan beyond its periodic payments based on earned compensation by active employees.

CITY OF INDIANOLA, IOWA
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Board of Trustees Report - Continued

IMU also provides post-retirement access to its medical insurance plan until age 65 as required under Iowa Code. Retirees contribute an amount equal to the premium amount charged to city departments and active employees on a pay-as-you-go basis.

IMU maintains a health reimbursement arrangement (HRA) for the benefit of employees. The utility makes a fixed annual commitment that employees may use to offset premium contributions or cash payments for any medical expense allowed under IRS Code. If the employee does not utilize the full amount provided in the fiscal year, the balance is carried forward to the following year and is available in any future period, including after retirement. Disbursements are paid out of operating funds and not held in trust. They are, however, accounted for in a sub-fund that is separate from other operating funds for budgetary control.

Additional information on the utility's pension arrangements and other post-employment benefits can be found in notes to the financial statements.

Closing

State law and city ordinance require municipal utility boards to provide the city council an annual report with complete financial statements. State law also requires the city to publish within nine months of the close of each fiscal year a complete set of financial statements, including that of municipal utilities as a component unit. State law requires that financial statements must be audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to these requirements, we hereby issue this report for Indianola Municipal Utilities for the fiscal year ending June 30, 2012.

Todd Kielkopf
General Manager

Jean Furler
Director of Finance & Administrative Services

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Operational Review

Utility operations are divided into departments, all of which work toward the common goal of providing superior services to the citizens of Indianola. The IMU Board of Trustees annually adopts a Strategic Plan complete with service objectives, operating strategies, and annual goals. Performance towards plan objectives are reported on a quarterly basis.

The following summary provides a brief review of the various departmental activities and accomplishments in FY 2012.

- **Electric Utility.** The electric utility provides reliable service by purchasing wholesale energy for the community as a whole, receiving it over the transmission system, generating electricity within Indianola as needed, and distributing it safely to customers. Significant progress toward implementing operational strategies include:
 - Completed a feasibility study for decommissioning generating units #1-#4, declaring #5 & #6 as emergency-only units, and reclaiming generating space for administration & telecom office space
 - Began work on delineating the 69kV system and the distribution system in conjunction with MEC doing the same; researched historical values of 69kV assets
 - Completed design on Hwy 65/69 3-phase underground & conversion; bid the project for calendar year 2012 construction
 - Significant progress on East Side Conversion project; addressed restoration issues identified in prior reports
 - Followed MEC activities at the IUB and FERC that will impact future transmission costs for IMU
 - Awarded the Hwy 65/69 3-phase underground & conversion project; construction commenced
 - Filed preliminary forms with MISO that should lead to collecting transmission tariff revenue for 69kV facilities
 - Participated in planning meetings for construction work to Hwy 92 that will impact the IMU 69kV line to Patterson
 - Significant progress on East Side Conversion project; removed 9th St. substation
 - Contracted for and completed the construction of offices at the downtown plant
 - Significant progress on East Side Conversion and Hwy 65/69 3-phase underground & conversion projects
 - Work was completed on administrative offices & the restroom at the Downtown Plant
 - Converted a section of primary cable to underground to serve residents on Scott Felton
 - Submitted final forms with MISO and worked on MEAN/MidAmerican agreements that will lead to receiving transmission credits for IMU's 69kV facilities
 - Project Construction Bonds were issued by CMMPA for the CAPX2020 project
 - Filed new Title V Air Quality Permit application with IDNR for the Downtown Plant and East Iowa turbines
 - Procured architectural & engineering services to create a plan & spec. for the 2013 Downtown Plant Generator Removal Project

CITY OF INDIANOLA, IOWA
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Operational Review – Continued

- **Water Utility.** The water utility provides reliable water service by pumping it from wells, treating it, keeping enough in storage to meet daily needs, and distributing it to customers. Significant progress towards implementing operational strategies include:
 - Repaired several water main breaks
 - Began repainting the Hillcrest water tower
 - Received annual IDNR inspection report; implemented procedural changes
 - Completed Hillcrest water tower project
 - Begun seeing farmer hauling the lime dug out from pits last year; planning for additional removal yet this winter
 - Developed plans on how to demolish the old water treatment plant
 - Refunded revenue bonds at significantly lower interest rate
 - Met with engineer & painting contractor on Simpson College tower paint fading issue
 - Revised plans to replace water mains in 2012 in conjunction with the street replacement project
 - Construction commenced on the 2012 street & water main replacement project.
 - Entered into contract negotiations with AT&T for sitting cell phone antennae at the Simpson Water Tower
 - Received report and presented information from IDNR regarding the status of the Jordan Aquifer
- **Communications Utility.** The communications utility provides the infrastructure that transmits affordable, competitive, and technologically advanced telecommunications service for both retail and other public uses. Telephone and Internet services are offered to commercial customers through a contractual private/public partnership. Significant progress towards implementing operational strategies include:
 - Continued planning for the IMU Network Services division as the fiber system is expanded
 - Developed a community-wide valuation model showing the costs & benefits of a municipally-owned fiber network
 - Completed Indianola target market survey
 - Presented information prepared in/with IAMU on community benefits & outlook for fiber-to-the-premise projects in Iowa
 - Created a strategic model/presentation outlining how facilities & customer-centric activities can interact with economic development activities; identifies major stakeholder components and goals
 - Developed broad milestones and timetables for expanding fiber facilities in the East Side Conversion area in 2012
 - Worked through telecom property taxation issues with IAMU
 - Prepared and analyzed business plan models
 - Set prices and held meetings with public entity customers on new (2012) pricing
 - Prepared bid and was awarded contracts with the Iowa Communications Network from the High School to both City Hall Warren Co. Courthouse

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Operational Review - Continued

- Developed construction and administration strategies for expanding facilities
 - Held planning meetings related to business plan models
 - Ordered taking of bids and quotes for splicing & materials related to expanding facilities in the East Side Conversion area in 2012
 - Procured materials and services for expanding facilities in the East Side Conversion area
 - Fiber backbone completed and spliced into the old network
 - Entered into a Memorandum of Understanding with United Spectrum Technologies to develop a beta test site for the distribution of wireless broadband
 - Prepared bid and was awarded a contract with the Iowa Communications Network from the High School to the new Mercy Clinic
 - Entered into Memorandum of Understandings with MCG regarding key principles for the business plan model and construction & maintenance of the fiber network
- **Administration.** All three utilities are administered by a combination of the IMU Board of Trustees and their staff, services provided by the City of Indianola through cost-sharing arrangements, and third-party contractors.

Public works activities primarily involve co-managing the public right of way. IMU also supports economic development and community betterment activities. Third, there are utility-specific services such as technical activities, safety, and utility programming. Last are the governance and professional services associated with oversight, regulatory actions, general management, human resources, fiduciary controls, public notifications and information systems, and legal compliance & risk management.

- **Public Works:**
 - Worked with City of Indianola officials to enforce ROW ordinances and IMU pole attachment resolutions for poles where IMU has removed electric facilities
 - Tree trimming contractor hired with work to be performed in 2nd quarter
 - Worked with legal counsel to enforce ROW ordinances and IMU pole attachment resolutions for poles where IMU has removed electric facilities
 - Worked with legal counsel to enforce ROW ordinances and IMU pole attachment resolutions for poles where IMU has removed electric facilities; also communicated pole count disputes to attorneys
 - Worked with legal counsel to enforce ROW ordinances and IMU pole attachment resolutions for poles where IMU has and will remove electric facilities

Economic Development & Community Betterment:

- Approved contracts & documents related to establishing a USDA-RD Revolving Loan Fund
- IDA Marketing Committee reviewed proposals to re-do their web site
- Completed USDA-RD Revolving Loan Fund paperwork; received and distributed funds to Simpson College

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Operational Review - Continued

- IDA Marketing Committee continues progress to re-launch their web site
- Met with IDA and WCEDC staff on focusing program attention on IMU telecom and Indianola technology sectors
- Attended several planning meetings related to how to utilize the pending IMU Network Services expansion as an economic development asset; focus on technology & entrepreneurial development
- WCEDC submitted a funding request and held a successful capital campaign kickoff event to raise their profile in the metro
- IMU staff attended the GDSM Partnership trip to Washington, DC
- Held meetings with Simpson College and the IDA regarding a potential partnership to support Indianola entrepreneurs; developed related planning and presentation materials
- Completed Memorandum of Understanding with the IDA to transition to an Economic Gardening approach to local utility development efforts; City of Indianola to directly fund WCEDC

Technical Services & Programs:

- Held the annual Customer Appreciation Day event complete with booths on utility operations, energy efficiency programs, and others
- Performed preliminary research on PEV charging stations
- Contracted to update the Indianola Sustainability Study in 2012; will create a baseline on carbon-equivalent use prior to joining MEAN in 2007 and progress towards emission reductions over a multi-year period
- Received the 2012 Sustainability Study update that established baseline and trend data related to emissions and wholesale energy generating sources
- Held the annual Indianola Sustainability Fair in the IMU line shop
- Issued a joint press release regarding the Landfill Gas project in conjunction with NMPP Energy, Metro Waste Authority, and Waste Management; the project has been delayed due to air quality permitting.
- Began broadband availability and adoption analysis for the Connected Communities program
- Started plans to establish the IMU Network Services Partners program

Governance and Professional Services:

- Met with management staff and performed an annual review of the Strategic Plan; implemented and held IMU Performance Committee meetings comprising of management staff, supervisors, crew members, and other administrative staff; met to discuss performance measurements; designed database task tracking system
- Recognized employees for Safety performance
- Eligible employees achieved advancement in the electric apprenticeship program
- Participated in the Employee Insurance Committee with other city departmental staff and facilitator Debbie Dean (Benefit Source, Inc.)

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Operational Review - Continued

- Employee evaluations performed and direction provided for the coming year
- APPA designation as a Reliable Public Power Provider (RP3)
- New electric & water rate resolutions evaluated and adopted
- Contracted with OPN Architects to engage in a Master Facilities Plan related to the line shop/related buildings, 210 N. First property and East Iowa property
- Started Master Facility Plan with OPN (architects)
- New post-issuance continuing disclosure policy adopted
- Maintained A2 (Moody's) and A+ (S&P) bond ratings (affirmed in 2011)
- Received rate study proposals from 2 providers of that service
- Prepared and submitted RP3 application for the next award cycle
- Issued RFP for electric cost of service study; selected firm
- Received notice of continued APPA RP3 designation
- General Manager appointed to & serving on the Connect Iowa Advisory Board
- Received drafts of FY 2011 Audit & compiled annual report
- Implemented paperless packets via iPads
- General Manager appointed to & serving on IAMU 2020 Task Force
- Received and discussed drafts of the electric cost of service study
- Completed the Master Facility Plan and received the final report
- Filed FY 2011 annual report and financial statements



Shull

and Co. P.C.
certified public accountants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Indianola Municipal Utilities
Indianola, Iowa

We have audited the accompanying statement of net assets of the Indianola Municipal Utilities, a component unit of the City of Indianola, Iowa, as of June 30, 2012 and 2011 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Indianola Municipal Utilities as of June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2012, on our consideration of the Indianola Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Indianola's basic financial statements. Management's Discussion and Analysis and budgetary comparison information on pages 14 through 20 and 37 through 38, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Shull & Co., P.C.

December 12, 2012

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Management Discussion and Analysis (MD&A)

Indianola Municipal Utilities offers readers of its financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in this report.

2012 Financial Highlights

- Indianola Municipal Utilities has ending cash and investment balances totaling \$9,419,546 to meet the utility's ongoing obligations to citizens, creditors, for capital reinvestment in utility operations, and for emergency repairs.
- The utility annually uses prior years' positive cash flow and balances to reinvest in capital assets, as detailed in the "Long term financial planning" section of this MD&A.
- As reported on the Statement of Cash Flows, total cash and investment balances decreased by \$124,510.
- Net cash provided by operating activities was \$3,062,037, which increased by \$2,698,930 from the prior year. The primary reason for this increase is a combination of 1) an increase in accounts receivable of \$1,004,793; and 2) a decrease of \$1,738,530 in inventories.
- At the end of the current fiscal year, unrestricted and undesignated net assets totaled \$11,228,790, which increased by \$7,574 over the prior year.
- The utility's total liabilities increased \$1,401,236 during the current fiscal year. Current liabilities increased by \$390,208 primarily due to previously-issued debt being payable within one year. Long-term liabilities increased \$1,011,028 due to new debt issued for capital projects.

Using this Annual Report

The annual report consists of a series of financial statements as well as other requirements as follows:

Management Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the government's financial activities.

The Financial Statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows. These statements provide information about the activities of the utility as a whole and present an overall view of the utility's finances.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Management Discussion and Analysis (MD&A) - Continued

Basis of accounting. Indianola Municipal Utilities maintains its financial records on the accrual basis and the financial statements presented in this report are prepared on that basis. The financial statements present the financial position and changes in financial position of the funds in accordance with U.S. generally accepted accounting principles.

Reporting the Utility's Financial Activities

One of the most important questions asked about the utility's finances is, "Is Indianola Municipal Utilities as a whole better off or worse off as a result of the year's activities?" The Financial Statements reports information which helps answer this question.

Fund Accounting. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Separate funds are maintained for each utility. These funds are classified as business type, or proprietary, funds for reporting purposes.

Financial Statements. The Statement of Net Assets presents information on each utility's assets, liabilities, and equity. Over time, increases or decreases in unrestricted and undesignated net assets may serve as a useful indicator of whether the financial position of the utility is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets details the financial operating results of the utility during the most recent fiscal year, with a comparison to the prior year.

The Statement of Cash Flows provides the net increase or decrease in cash and investments as a result of operating, financing, and investment activities.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Management Discussion and Analysis (MD&A) - Continued

Analysis of Financial Activities

This section of the MD&A summarizes the financial data contained in the utility's financial statements. It also provides an analysis of the major activities affecting changes from the previous fiscal year.

Statement of Net Assets

	Year ended June 30,	
	2012	2011
<hr/>		
Assets:		
Current	\$ 13,295,449	\$ 13,090,704
Restricted	1,935,564	1,939,754
Other	300,000	0
Capital – Net of Depr.	43,747,651	41,148,314
Total Assets	<hr/> \$ 59,278,664 <hr/>	<hr/> \$ 56,178,772 <hr/>
Liabilities:		
Current	\$ 3,342,177	\$ 2,951,969
Long Term	11,202,827	10,191,799
Total Liabilities	<hr/> \$ 14,545,004 <hr/>	<hr/> \$ 13,143,768 <hr/>
Net Assets:		
Invested Capital Assets	\$ 32,418,828	\$ 30,868,182
Restricted	593,652	812,041
Designated	492,394	186,882
Unrestricted & Undesignated	11,228,790	11,236,364
Total Net Assets	<hr/> \$ 44,733,664 <hr/>	<hr/> \$ 43,035,004 <hr/>

As shown above, total utility net assets remained relatively stable, improving \$1,698,660. Invested Capital Assets increased by \$1,552,313 as major construction projects progressed. This is also reflected in the decrease in Current Assets. The utility also repaid \$1,829,840 of indebtedness in FY 2012.

CITY OF INDIANOLA, IOWA
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Management Discussion and Analysis (MD&A) - Continued

Net Income

Year ended June 30,
2012 2011

Operating revenues:

Sales of electricity	\$ 10,775,267	\$ 10,026,640
Electrical capacity contract fees	325,630	357,531
Sales of water	2,360,367	2,020,234
Fiber communications rental fees	165,463	174,207
Other	218,770	184,247
Total operating revenue	\$ 13,845,497	\$ 12,762,859

Operating expenses:

Electric utility	\$ 9,282,349	\$ 8,767,069
Water utility	1,293,141	1,224,293
Fiber communications utility	33,693	22,063
Administrative and general	1,336,412	1,355,624
Transfer to city for Clerk's operations	311,600	297,300
Transfer to city in lieu of property taxes	512,600	475,300
Total operating expenses	\$ 12,769,795	\$ 12,141,649

Income from operations:

\$ 1,075,702	\$ 621,210
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Nonoperating revenue (expenses):

Revenue	\$ 924,134	\$ 710,267
Expenses	(486,305)	(464,716)

Net Income

\$ 1,513,527	\$ 866,761
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Income from operations increased by \$454,492. This was due to a combination of rate increases for both the Electric & Water utilities and higher sales volume.

Budgetary Highlights

The board of trustees annually adopts a budget for all funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level (i.e. proprietary) for the city as a whole, not at the fund or fund type level. Notice is given and a public hearing is held on the budget. The budget may be amended during the year utilizing similar statutorily prescribed procedures. None of the amendments made, if any, negatively affect the following year's budget.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Management Discussion and Analysis (MD&A) - Continued

Information pertaining to budgetary to actual receipts, disbursements, and changes in balances is provided in the financial statements on a cash basis. Highlights include:

- Disbursements were \$167,781 over the amended budget due to unforeseen timing of capital project disbursements (that are based on a percentage of project completion).
- Ending balances were \$1,602,479 more than budgeted. Those funds are allocated to capital projects and are not designated for ongoing operating expenditures in the future.

Capital Asset and Debt Administration

The utility issued \$3,722,236 in additional debt during the fiscal year.

The utility pledges electric rates to be sufficient to pay its pro-rata share of outstanding debt obligations of the Municipal Energy Agency of Nebraska under its wholesale energy contract.

The utility's bond rating remained A2 (Moody's) and A+ (S&P).

	Outstanding Debt at Year ended June 30,	
	2012	2011
<hr/>		
Electric utility:		
Revenue bonds	\$ 10,010,000	\$ 9,970,000
Water utility:		
Revenue bonds	1,350,000	1,825,000
General Obligation bonds (issued by city)	1,217,236	795,000
Communications utility:	-	-
Total	<hr/> \$ 12,577,326 <hr/>	<hr/> \$ 12,590,000 <hr/>
 Internal loan from Electric utility to Water utility	 \$ 2,925,046	 \$ 3,090,335
	<hr/>	<hr/>

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Management Discussion and Analysis (MD&A) - Continued

Economic Factors and Next Year's Budgets and Rates

Local economy. The City of Indianola currently enjoys a favorable economic environment and local indicators point to continued moderate growth. The projection in 2015 is for Indianola to grow to a population of approximately 15,500, which represents an increase of 5% from the 2010 census. Although a primarily residential community, the varied nature of the educational, light manufacturing, agriculture services, and retail sectors of the local economy provides relative employment stability. Close proximity to the Des Moines metro area, the state capital with a combined population of approximately 460,000, provides employment for approximately 60% of the available workforce. Over the past 7 years, retail sales have grown at an annual average of over 1.5% and new single-family dwellings have been constructed at an average annual rate in excess of 50 units.

The region (which includes the City of Indianola and the surrounding unincorporated area within Warren County) has a moderate growth employment outlook over the next several years. New commercial construction is occurring along the four-lane highway between the City of Indianola and the Des Moines metropolitan area. A four-lane bypass to the south of the Des Moines metro, completed in 2002, provides increased commercial development opportunities for the community as it improved traffic flow from Indianola to the western Des Moines suburbs and the interstate highway system. The utility makes annual financial commitments to the Indianola Development Corporation and Warren County Economic Development Corporation, both non-related entities to the city, to support economic development in the region. The utility also offers its own revolving loan program to spur economic development and participates in the Choose Des Moines Communities program of the Greater Des Moines Partnership.

Long-term financial planning. The utility annually adopts a 5-year capital improvement budget that prioritizes foreseen projects. Those with potential long-term significant impacts to the cash balances and financial operations of the utility are:

- Phase II of the long-term electric underground conversion project. Additional debt of \$5 million can be structured within current electric rates. It is anticipated this would be issued within 3-5 years.
- Water main replacements estimated at \$500,000 using available cash in excess of the utility's reserve policy.
- Construction of additional fiber optic trunk lines within the next 5 years (amount dependent upon opportunities to obtain adequate financial returns on investment).

Potential regulatory changes over the next 3-5 years with the most fiscal impact is climate control legislation and renewable energy purchasing requirements. Both could increase wholesale energy purchase costs per kwh. However, the cost of energy adjustment could be imposed to recover unanticipated costs without the need for board action.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Management Discussion and Analysis (MD&A) - Continued

The utility has hedged these risks by purchasing 11.5% of its wholesale supply from alternative energy sources. New alternative supplies that would be required could be at a much higher price. Regulations could also cause higher average prices for conventional energy. The landfill gas project is structured such that higher daily prices benefit the utility.

Budgets and Rates. Indianola Municipal Utilities increased electrical rates in FY 2012 and additional annual rate increases are planned for the foreseeable future to maintain bond coverage for new debt being issued to fund capital projects and to pay for projected wholesale energy costs. Water rates remained stable. The communications utility entered into a new agreement with its private partner to begin receiving that offset debt carrying costs.

Requests for Information

This financial report is designed to provide a general overview of Indianola Municipal Utilities' finances for all those with an interest in the utility's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance or to the City Clerk, who serves as the Secretary of the Board of Trustees. Their offices are located at 110 N. First St., PO Box 299, Indianola, IA 50125 with a telephone number of 515-961-9410.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Statement of Net Assets
June 30, 2012 and 2011

ASSETS	<u>2012</u>	<u>2011</u>
Current assets		
Cash and investments	\$ 7,483,982	7,604,302
Accounts receivable - customers	2,758,208	2,278,529
Other accounts receivable	19,625	34,974
Accrued interest receivable	29,050	52,118
Inventories	2,929,584	3,120,781
Promissory note receivable within one year	75,000	-
Total current assets	<u>13,295,449</u>	<u>13,090,704</u>
 Restricted assets - cash and investments		
Electric revenue note and interest sinking fund	298,024	113,349
Electric revenue note debt service reserve fund	1,084,000	1,056,500
Electric revenue note improvement fund	207,691	207,691
Water revenue bond and interest sinking fund	135,849	166,514
Water revenue bond debt service reserve fund	135,000	320,700
Water revenue bond water improvement fund	75,000	75,000
	<u>1,935,564</u>	<u>1,939,754</u>
 Promissory note receivable after one year	<u>300,000</u>	-
 Electric utility plant and equipment, net of accumulated depreciation of \$22,919,265 (2011 - \$21,728,534)	28,831,023	26,700,983
Water utility plant and equipment, net of accumulated depreciation of \$9,505,443 (2011 - \$8,977,793)	14,772,125	14,334,785
Fiber communications utility plant and equipment, net of accumulated depreciation of \$755,207 (2011 - \$737,164)	144,503	112,546
	<u>43,747,651</u>	<u>41,148,314</u>
	 <u>\$ 59,278,664</u>	 <u>56,178,772</u>

See accompanying notes to financial statements.

	2012	2011
LIABILITIES		
Current liabilities		
Accounts payable	\$ 1,677,118	1,561,879
Wages and benefits payable	185,886	161,323
Sales tax payable	616	2,708
Deferred rental fees	8,773	9,475
Accrued interest payable	1,872	1,215
General obligation bonds payable within one year	126,000	90,000
Total current liabilities	<u>2,000,265</u>	<u>1,826,600</u>
Current liabilities payable from restricted assets		
Accrued interest payable	66,912	55,369
Electric revenue capital loan notes and bonds payable within one year	1,010,000	830,000
Water revenue refunding capital loan notes and bonds payable within one year	265,000	240,000
Current liabilities payable from restricted assets	<u>1,341,912</u>	<u>1,125,369</u>
Electric revenue capital loan notes and bonds payable after one year (net of unamortized premium of \$52,592 (2011 - \$10,650))	9,052,592	8,220,650
General obligation bonds payable after one year (net of unamortized discount of \$24,944 (2011 - \$29,190))	1,066,756	615,810
Water revenue refunding capital loan notes and bonds payable after one year (net of unamortized discount of \$1,521 (2011 - premium \$5,339))	1,083,479	1,355,339
Total long term liabilities	<u>11,202,827</u>	<u>10,191,799</u>
Total liabilities	<u>\$ 14,545,004</u>	<u>13,143,768</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 32,418,824	30,866,515
Restricted for debt service	310,961	531,694
Restricted for electric utility improvements	207,691	207,691
Restricted for water utility improvements	75,000	75,000
Unrestricted		
Designated for payment of insurance coverage deductibles	17,592	15,640
Designated for economic development revolving loan fund	474,802	171,242
Undesignated	11,228,790	11,167,222
Total unrestricted	<u>11,721,184</u>	<u>11,354,104</u>
Total net assets	<u>\$ 44,733,660</u>	<u>43,035,004</u>

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Statement of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenues		
Sales of electricity	\$ 10,775,267	10,026,640
Sales of water	2,360,367	2,020,234
Fiber communications rental fees	165,463	174,207
Capacity contract fees	325,630	357,531
Other	218,770	184,247
Total operating revenues	<u>13,845,497</u>	<u>12,762,859</u>
Operating expenses		
Electric utility		
Purchased energy	6,644,002	5,971,282
Plant operation and maintenance	334,181	482,505
Distribution operation and maintenance	1,007,711	1,127,711
Transmission operation and maintenance	88,326	-
Depreciation and amortization	1,208,129	1,185,571
Water utility		
Plant operation and maintenance	672,328	577,273
Distribution operation and maintenance	93,167	116,235
Depreciation and amortization	527,650	530,785
Fiber communications utility		
Operation and maintenance	15,650	3,673
Depreciation and amortization	18,043	18,390
Administrative and general	1,336,412	1,355,624
Transfer to city for Clerk's operations	311,600	297,300
Transfer to city in lieu of property taxes	512,600	475,300
Total operating expenses	<u>12,769,799</u>	<u>12,141,649</u>
Income from operations	<u>1,075,698</u>	<u>621,210</u>

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

	2012	2011
Nonoperating revenues (expenses)		
Investment income	244,942	334,098
Connection fees	96,005	48,616
Gain on sale of capital assets	10,550	-
USDA Rural Economic Development Grant	300,000	-
Other	272,637	327,553
Bond issuance costs	(63,038)	-
Interest expense	(423,267)	(464,716)
	<u>437,829</u>	<u>245,551</u>
Net income	1,513,527	866,761
Capital contributions from customers and developers	184,054	114,873
Capital contributions from water main connection fees	1,075	472
Change in net assets	<u>1,698,656</u>	<u>982,106</u>
Net assets, beginning of year, before restatement	43,035,004	42,139,252
Restatement of beginning net assets	-	(86,354)
Net assets, beginning of year, as restated	<u>43,035,004</u>	<u>42,052,898</u>
Net assets, end of year	\$ 44,733,660	43,035,004

See accompanying notes to financial statements.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Statement of Cash Flows
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Cash received from customers	\$ 13,309,674	12,304,881
Cash paid to suppliers	(8,666,381)	(10,404,911)
Cash paid to employees	(1,949,898)	(1,913,032)
Other nonoperating fees and revenues received	<u>368,642</u>	<u>376,169</u>
Net cash provided by operating activities	<u>3,062,037</u>	<u>363,107</u>
 Cash flows from noncapital financing activities		
USDA Rural Economic Development Grant	<u>300,000</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>300,000</u>	<u>-</u>
 Cash flows from capital and related financing activities		
Purchases and construction of electric utility plant and equipment	(3,271,365)	(2,998,711)
Purchases and construction of water utility plant and equipment	(847,740)	(413,052)
Purchases and construction of fiber communications utility plant and equipment	(50,000)	-
Proceeds from sale of capital assets	10,550	-
Water main connection fees received	1,075	-
Electric revenue bonds issued	1,809,374	-
Water revenue refunding bonds issued	1,347,300	-
General obligation bonds issued	572,700	-
Bond issue costs paid	(63,038)	-
General obligation bond principal paid	(90,000)	(85,000)
General obligation bond interest paid	(28,100)	(30,900)
Electric revenue capital loan notes and bonds principal paid	(830,000)	(930,000)
Electric revenue capital loan notes and bonds interest paid	(307,725)	(305,299)
Water revenue refunding capital loan notes and bonds principal paid	(1,590,000)	(235,000)
Water revenue refunding capital loan notes and bonds interest paid	<u>(42,588)</u>	<u>(66,345)</u>
Net cash used by capital and related financing activities	<u>(3,379,557)</u>	<u>(5,064,307)</u>
 Cash flows from investing activities		
Promissory note receivable issued	(375,000)	-
Investment income received	<u>268,010</u>	<u>306,441</u>
Net cash provided (used) by investing activities	<u>(106,990)</u>	<u>306,441</u>
 Net increase (decrease) in cash and investments	(124,510)	(4,394,759)
Cash and investments, beginning of year	<u>9,544,056</u>	<u>13,938,815</u>
 Cash and investments, end of year	<u>\$ 9,419,546</u>	<u>9,544,056</u>

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Statement of Cash Flows - Continued
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Reconciliation of income from operations to net cash provided by operating activities		
Income from operations	\$ 1,075,698	621,210
Adjustments		
Other nonoperating fees and revenues	368,642	376,169
Depreciation	1,753,822	1,734,746
(Increase) decrease in accounts receivable - customers	(464,330)	(397,654)
(Increase) decrease in inventories	191,197	(1,141,472)
Increase (decrease) in accounts, wages and benefits, and sales tax payable	137,710	(829,190)
Decrease in deferred rental fees	<u>(702)</u>	<u>(702)</u>
Net cash provided by operating activities	<u>\$ 3,062,037</u>	<u>363,107</u>
Noncash capital and related financing and investing activities		
Developer contributions of electric utility plant and equipment	\$ 66,804	93,173
Developer contributions of water utility plant and equipment	117,250	21,700

See accompanying notes to financial statements.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2012 and 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying financial statements present the financial position, changes in financial position and cash flows of the Indianola Municipal Utilities of the City of Indianola, Iowa. The Utilities are governed by a five member board appointed by the City Council and is considered a component unit of the City of Indianola, Iowa. These financial statements are not intended to present the financial position of the City of Indianola, Iowa, and the changes in its financial position and cash flows of its proprietary fund types.

Accounting method - The accounting records of the Utilities are maintained on a cash basis. The accompanying financial statements have been prepared, after giving effect to all material adjustments including amounts due from utility customers and due to suppliers of goods and services, to reflect the account balances and results of operations on the accrual basis.

The Utilities report their financial activity in accordance with all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as applicable Financial Accounting Standards Board (FASB) pronouncements unless those pronouncements conflict with or contradict GASB pronouncements.

Inventories - Inventories, which consist of fuel oil and supplies, are stated at the lower of cost (first-in, first-out basis) or net realizable value.

Depreciation - Depreciation expense is computed using the straight-line method and estimated useful lives as follows:

Electric utility	
Power plant building	50 years
Generating units	25 years
Transmission and distribution systems	40 years
Vehicles	10 years
Computer equipment	5 years
Water utility	
Buildings and plant	40 years
Wells and towers	30-50 years
Mains and hydrants	50 years
Meters	20 years
Machinery and equipment	15 years
Vehicles	10 years
Fiber communications utility	
Distribution and connection systems	10 years

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2012 and 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Investments and Interest Income - Cash balances available from each of the funds of the City of Indianola, Iowa are pooled for investment and cash management purposes. Investments purchased by the pool are stated at cost or amortized cost. Interest earned on pooled investments is allocated monthly on the basis of the funds' ending cash and investment balances. Because the cash of Indianola Municipal Utilities is deposited with or withdrawn from the cash and investment pool without restriction the allocated share of the pool has been treated as a cash equivalent in the accompanying statement of cash flows.

2. UTILITY PLANT AND EQUIPMENT

The following is a summary of utility plant and equipment in service as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Electric utility		
Land	\$ 359,207	359,207
Service territory	446,000	446,000
Generating units	15,161,374	15,161,374
Transmission and distribution systems	31,241,808	28,085,817
Power plant building	2,147,323	2,147,323
Computer equipment	403,968	393,149
Equipment	751,238	751,238
Vehicles	1,239,370	1,085,409
	<u>\$ 51,750,288</u>	<u>48,429,517</u>
Water utility		
Land	\$ 416,270	416,270
Service territory	328,412	328,412
Buildings and plant	7,595,528	7,595,528
Wells and towers	4,590,517	4,350,504
Mains, hydrants and meters	10,572,176	9,847,199
Machinery and equipment	598,512	598,512
Vehicles	176,153	176,153
	<u>\$ 24,277,568</u>	<u>23,312,578</u>
Fiber communications utility		
Distribution and connection systems	<u>\$ 899,711</u>	<u>849,711</u>

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2012 and 2011

3. PROMISSORY NOTE

The Utility has a promissory note in connection with the Utility's revolving loan fund. Principal, with no interest thereon, is payable annually from October 2012. Principal not paid when due shall accrue interest at the rate of 8% per annum.

Promissory notes maturities are as follows as of June 30, 2012:

Year ending June 30,	Principal
2013	\$ 75,000
2014	75,000
2015	75,000
2016	75,000
2017	75,000
	<u>\$ 375,000</u>

4. REVENUE BONDS AND NOTES PAYABLE

The Utility has pledged future electric customer receipts, net of specified operating disbursements, to repay \$9,040,000 of Electric Revenue Capital Loan Notes issued in June 2010. Proceeds from the notes provided financing for improvements and extensions to the Municipal Electric Utility. The notes are payable solely from electric customer net receipts and are payable through 2025. Annual principal and interest payments on the notes are expected to require less than 40% of net receipts. The total principal and interest remaining to be paid on the notes is \$10,464,425. For the current year, principal and interest paid and total customer net receipts were \$1,137,725 and \$245,105, respectively.

The Utility has pledged future electric customer receipts, net of specified operating disbursements, to repay \$1,800,000 of Electric Revenue Bonds issued in December 2011. Proceeds from the notes provided financing for improvements and extensions to the Municipal Electric Utility, including underground distribution lines and communication systems, plant improvements and related equipment. The notes are payable solely from electric customer net receipts and are payable through 2022. Annual principal and interest payments on the notes are expected to require less than 40% of net receipts. The total principal and interest remaining to be paid on the notes is \$2,023,623. For the current year, principal and interest paid and total customer net receipts were \$0 and \$245,105, respectively.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2012 and 2011

4. REVENUE BONDS AND NOTES PAYABLE - Continued

The resolutions providing for the issuance of the revenue capital loan notes and bonds include the following provisions:

- a. The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to a separate electric revenue sinking account within the Enterprise Fund for the purpose of making the note principal and interest payments when due.
- c. Additional monthly transfers of 25% of the amount required to be deposited in the water revenue sinking account shall be made to a separate electric revenue debt service reserve account until specific minimum balances have been accumulated in the accounts. Use of funds is restricted to funding any deficit in the sinking account.
- d. Additional monthly transfers of \$3,500 shall be made to a separate electric improvement account until specific minimum balance of \$200,000 has been accumulated in the account. Use of funds is restricted to funding any deficit in the sinking and reserve accounts or paying the cost of extraordinary maintenance expenses or repairs, renewals and replacements not included in the annual budget of revenues and current expenses, payments of rentals on any part of the system, and for capital improvements to the system.
- e. All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to retire any subordinate obligations, to pay for extraordinary repairs or replacements to the electric system, or to pay or redeem any notes or bonds, and then can be used for any lawful purpose.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2012 and 2011

4. REVENUE BONDS AND NOTES PAYABLE - Continued

Revenue capital loan note and bond debt service requirements are as follows as of June 30, 2012:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 1,010,000	340,363	1,350,363
2014	1,040,000	307,700	1,347,700
2015	540,000	278,200	818,200
2016	555,000	263,750	818,750
2017	730,000	248,850	978,850
2018-2022	3,990,000	865,185	4,855,185
2023-2025	2,145,000	174,000	2,319,000
	<u>\$10,010,000</u>	<u>2,478,048</u>	<u>12,488,048</u>

In August 2004 the Utility issued \$2,485,000 of Water Revenue Refunding Capital Loan Notes for a crossover refunding of a portion of the revenue bonds issued December 1996. On December 29, 2011 the remaining principal and interest on the outstanding August 2004 refunding capital loan notes were paid. For the current year, principal and interest paid was \$1,627,441.

In December 2011 the Utility issued \$1,350,000 of Water Revenue Refunding Bonds, with interest rates ranging from .5% to 1.3%, for a current refunding of a portion of the refunding capital loan notes issued August 2004.

The Utility refunded the capital loan notes to reduce its total debt service payments by approximately \$91,800 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$88,400.

The Utility has pledged future water customer receipts, net of specified operating disbursements, to repay \$1,350,000 of Water Revenue Refunding Bonds issued in December 2011. Proceeds from the notes provided financing for the current refunding of a portion of the refunding capital loan notes issued August 2004. The notes are payable solely from water customer net receipts and are payable through 2017. Annual principal and interest payments on the notes are expected to require less than 40% of net receipts. The total principal and interest remaining to be paid on the notes is \$1,386,055. For the current year, principal and interest paid and total customer net receipts were \$5,147 and \$768,182, respectively.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2012 and 2011

4. REVENUE BONDS AND NOTES PAYABLE - Continued

The resolution providing for the issuance of the revenue bonds include the following provisions:

- a. The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to a separate water revenue sinking account within the Enterprise Fund for the purpose of making the note principal and interest payments when due.
- c. Additional monthly transfers of 25% of the amount required to be deposited in the water revenue sinking account shall be made to a separate water revenue debt service reserve account until specific minimum balances have been accumulated in the accounts. Use of funds is restricted to funding any deficit in the sinking account.
- d. All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to retire any subordinate obligations, to pay for extraordinary repairs or replacements to the water system, or to pay or redeem any bonds, and then can be used for any lawful purpose.

The revenue bonds mature in annual installments of \$265,000 to \$275,000 through December 2016 and bear interest at rates of 0.50% to 1.30% payable semiannually. Debt service requirements were as follows as of June 30, 2012:

Year ending June 30,	Principal	Interest	Total
2013	\$ 265,000	11,528	300,617
2014	270,000	9,920	298,884
2015	270,000	7,760	301,345
2016	270,000	5,060	298,030
2017	275,000	1,788	1,192,332
	<u>\$ 1,350,000</u>	<u>36,055</u>	<u>1,386,055</u>

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2012 and 2011

5. GENERAL OBLIGATION BONDS PAYABLE

In January 2011 the City issued \$3,915,000 of General Obligation Refunding Bonds for a crossover refunding of a portion of the General Obligation Bonds dated October 2003. Although the bonds are a general obligation of the City and the City has authority to levy property taxes to pay the bonds and related interest, as payments come due, it is the intention of the City Council that the payments of \$735,000 of bond principal and related interest be financed by the operations of the Municipal Water Utility. Accordingly, that portion of the bonds are reported as a liability and the interest payments are reported as an expense of the Utilities in these financial statements. Municipal Water Utility principal payments are due on the notes in the amounts of \$100,000 to \$115,000 from June 1, 2012 through June 1, 2018. Interest on the notes at rates of 1.0% to 2.0% per annum is due semiannually beginning December 1, 2011.

In May 2012 the City issued \$3,875,000 of General Obligation Bonds, a portion of which was used to finance water main improvements. Although the bonds are a general obligation of the City and the City has authority to levy property taxes to pay the bonds and related interest, as payments come due, it is the intention of the City Council that the payments of \$572,700 of bond principal and related interest be financed by the operations of the Municipal Water Utility. Accordingly, that portion of the bonds are reported as a liability and the interest payments are reported as an expense of the Utilities in these financial statements. Municipal Water Utility principal payments are due on the notes in the amounts of \$11,000 to \$52,500 from June 1, 2013 through June 1, 2025. Interest on the notes at rates of .5% to 2.4% per annum is due semiannually beginning December 1, 2012.

The Municipal Water Utility portion of general obligation bond debt service requirements are as follows as of June 30, 2012:

Year ending June 30,	Principal	Interest	Total
2013	\$ 126,000	20,225	146,225
2014	154,400	19,075	173,475
2015	155,000	17,500	172,500
2016	155,000	14,900	169,900
2017	145,800	12,300	158,100
2018-2022	341,000	32,000	373,000
2023-2025	140,500	6,200	146,700
	<u>\$ 1,217,700</u>	<u>122,200</u>	<u>1,339,900</u>

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2012 and 2011

6. COMPENSATED ABSENCES

Indianola Municipal Utilities employees accumulate vacation hours, compensating time off and sick leave for subsequent use. Unused vacation hours and compensating time off are payable upon termination, retirement or death. These amounts are included in wages and benefits payable as of June 30, 2012 and 2011. Accrued sick leave benefits as of June 30, 2012 of approximately \$291,097 (2011 - \$300,930) are payable only when used and have not been accrued.

7. PENSION AND RETIREMENT BENEFITS

The Indianola Municipal Utilities contributes to the Iowa Public Employees Retirement system (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.38% of their annual covered salary and Indianola Municipal Utilities is required to contribute 8.07% of annual covered salary. Contribution requirements are established by state statute. Indianola Municipal Utilities contribution to IPERS for the year ended June 30, 2012 was \$111,531 (2011 - \$92,636), equal to the required contribution for the year.

8. RISK MANAGEMENT

The City of Indianola is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 384.12 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 663 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler and machinery. There have been no reductions in insurance coverage from prior years.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2012 and 2011

8. RISK MANAGEMENT - Continued

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basic rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Indianola Municipal Utilities' property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Utilities' annual contributions to the Pool for the year ended June 30, 2012 were \$112,361 (2011 - \$109,989).

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The Utilities do not report a liability for losses in excess of reinsurance or excess risk - sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated.

Accordingly, at June 30, 2012, no liability has been recorded in the Utilities financial statements. As of June 30, 2012, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2012 and 2011

8. RISK MANAGEMENT - Continued

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one year period following withdrawal.

Indianola Municipal Utilities is a member of the Iowa Municipalities Workers' Compensation Association (the "Association"). The Association is governed by a board of directors elected by representatives of the governing bodies of each participating governmental jurisdiction. Indianola Municipal Utilities has executed a Worker's Compensation Coverage Agreement with the Association which extends through June 30, 2012 and has authorized the Association to issue general obligation bonds to provide funds with which to pay claims. During the year ended June 30, 2012, Indianola Municipal Utilities paid workers' compensation insurance premiums of \$32,199 (2011 - \$30,028) to the Association.

9. COMMITMENTS

The Indianola Municipal Utilities have entered into contracts for electric underground conversion and a water main improvement project totaling approximately \$4,650,000. The remaining commitment on these contracts at June 30, 2012 is \$948,684.

10. ACCOUNTING CHANGE/RESTATEMENT

Governmental Accounting Standards Board Statement No. 65 Items Previously Reported as Assets and Liabilities, was implemented during the year ended June 30, 2012. As a result, the June 30, 2010 net asset balance was reduced by \$86,354 to retrospectively adjust for debt issuance costs that had not previously been expensed.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Budgetary Comparison Schedule of Receipts, Disbursements
And Changes in Balances – Budget and Actual (Cash Basis)
Year Ended June 30, 2012

		Budget Amounts		Final
	Actual	Original	Final	to Actual Variance
Receipts				
Use of money and property	\$ 332,490	426,600	426,600	(94,110)
Intergovernmental	306,685	300,000	300,000	6,685
Charges for service	13,855,359	13,313,300	13,313,300	542,059
Special assessments	1,075	-	-	1,075
Miscellaneous	118,458	82,500	82,500	35,958
Total receipts	14,614,067	14,122,400	14,122,400	491,667
Disbursements				
Business type activities	16,963,501	15,182,400	16,795,700	(167,801)
Excess of receipts over (under) disbursements	(2,349,434)	(1,060,000)	(2,673,300)	323,866
Other financing sources (uses)				
Proceeds of debt	3,156,674	1,200,000	1,200,000	1,956,674
Sale of capital assets	10,550	-	-	10,550
Operating transfers in (out)	(942,300)	(253,700)	(253,700)	(688,600)
Total other financing sources (uses)	2,224,924	946,300	946,300	1,278,624
Excess of receipts and other financing sources over (under) disbursements and other financing uses	(124,510)	(113,700)	(1,727,000)	1,602,490
Balances, beginning of year	9,544,056	9,544,056	9,544,056	-
Balances, end of year	\$ 9,419,546	9,430,356	7,817,056	1,602,490

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Other Information –
Budgetary Reporting
Year Ended June 30, 2012

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the code of Iowa, the Board of Trustees with the approval of the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, for the City of Indianola as a whole, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,613,300. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the business type activities function.



Shull and Co. P.C.

certified public accountants

INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Indianola Municipal Utilities
Indianola, Iowa

We have audited the financial statements of Indianola Municipal Utilities of the City of Indianola, Iowa, as of and for the year ended June 30, 2012, and have issued our report thereon dated December 12, 2012. Our report expressed an unqualified opinion on the financial statements, which were prepared in conformity with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the Indianola Municipal Utilities is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Indianola Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Indianola Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Indianola Municipal Utilities' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies in internal control over financial reporting.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Indianola Municipal Utilities' financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of control deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Indianola Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the Utility's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Indianola Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Utility's responses, we did not audit the Indianola Municipal Utilities' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and customers of the Indianola Municipal Utilities and other parties to whom the Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Indianola Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Shull & Co., P.C.

December 12, 2012

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Schedule of Findings

Year ended June 30, 2012

Part I: Summary of the Independent Auditor's Results:

- (A) An unqualified opinion was issued on the financial statements.
- (B) The audit did not disclose any significant deficiencies or material weaknesses in internal control over financial reporting.
- (C) The audit did not disclose any noncompliance which is material to the financial statements.
- (D) There were no major federal programs.
- (E) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (F) The Indianola Municipal Utilities did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

None

Part III: Findings and Questioned Costs for Federal Awards:

Not applicable

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-12 Certified Budget - Disbursements during the year ended June 30, 2012, exceeded the amounts budgeted in the business type activities function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Schedule of Findings - Continued

Year ended June 30, 2012

Part IV: Other Findings Related to Required Statutory Reporting (Continued):

- IV-B-12 Questionable Disbursements - No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- IV-C-12 Travel Expense - No expenditures of Utilities money for travel expenses of spouses of Utilities officials or employees were noted.
- IV-D-12 Business Transactions - No business transactions between the Indianola Municipal Utilities officials or employees were noted.
- IV-E-12 Bond Coverage - Surety bond coverage of Utilities officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- IV-F-12 Trustee Minutes - No transactions were found that we believe should have been approved in the Trustee minutes but were not.
- IV-G-12 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy were noted.
- IV-H-12 Revenue Bonds and Notes - The requirements of the electric revenue bonds and notes resolutions were met during the year ended June 30, 2012. However, the requirements of the water revenue bonds and notes resolutions were not met during the year ended June 30, 2012. The water sinking fund was underfunded by \$19,750.
- Recommendation - The City should transfer the appropriate amounts according to the requirements of the water revenue bonds and notes resolutions.
- Response - We will transfer in the future as recommended.
- Conclusion - Response accepted.
- IV-I-12 Telecommunications Services - No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.